



CHARLOTTESM

INTERNAL AUDIT

**Audit Report
Airport Valet Parking
July 31, 2015**

**City Auditor's Office
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Purpose and Scope

The purpose of this audit was to determine whether the City's Aviation Department (Aviation) has implemented adequate internal controls over the management of valet parking to ensure that Aviation:

- receives all revenue generated from valet operations
- reimburses the contract management firm for authorized, reasonable and necessary expenditures only, including payroll
- verifies that staffing levels are appropriate for expected productivity levels
- has appropriately addressed previously identified customer satisfaction, technology and security issues related to the valet parking operations

At the request of Aviation management, the audit originally focused on the previous valet parking management company, Park Inc. After finding that limited supporting documentation was available to review Park Inc. operations, Internal Audit turned its focus to the agreement with AmeriPark, LLC (AmeriPark). The new contract began in June 2014.

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.

Conclusion

The management of valet parking requires closer attention than the airport had provided since its start-up in 2003. In 2014, Aviation recognized this need and engaged auditors to perform a review. Aviation management has been receptive to the audit recommendations, and is taking appropriate steps to address each. Adequate staffing of the recently initiated Airport Business Office will be critical to ensure the airport's revenues are protected and operational goals are achieved.

Summary of Recommendations and Actions

Our review resulted in the following recommendations, along with management's corrective actions which were discussed over the course of the audit. The Interim Aviation Director's response to the full report is included as Attachment A.

1. Park Inc. had not been required to submit sufficient data to facilitate a thorough audit.
 - Auditors utilized the knowledge gained during its review of Park Inc. to create an audit plan for AmeriPark.

2. Aviation should establish and document a formal contract administration plan.
 - Aviation has hired a Business and Relationship Manager who will be responsible for contract administration.
3. Aviation should perform sufficient steps to verify the reliability of data from the Automated Valet Parking Management (AVPM) system.
 - Aviation has installed an AVPM system for the Airport, has access to the data and plans to verify system accuracy and reliability.
4. Aviation should ensure that credit card tips remitted to AmeriPark are not reported as revenue or expenses.
 - A new process has been put in place to ensure that tip amounts are recorded accurately.
5. Aviation should ensure that a specific individual is assigned to validate and adjust the vendor's self-evaluation of its performance.
 - Aviation has hired a new Business and Relationship Manager to manage the review and validation of the vendor's self-evaluation.

Background

Park Inc. provided valet parking services for Charlotte Douglas International Airport (Airport) from August 2003 to May 2014. Initially, only curbside valet service was provided. Business valet was introduced in 2007. The original contract was approved by City Council in July 2003, for a five-year term. Subsequent amendments extended the contract through June 2014.

During the last year of Park Inc.'s management contract, there were increasing concerns with customer service and crime related to the valet operations. Audit staff noted several reported incidents (theft, joyrides, damage) that occurred while cars were parked in the valet deck. Due to construction around the airport, several other parking lots and decks were temporarily closed, and more customers chose to use the valet option to park. Increased traffic, longer wait times, and inadequate staffing levels all contributed to customer dissatisfaction.

Due to the growing customer dissatisfaction, Aviation put the valet parking contract up for bid for fiscal year 2015. Park Inc. submitted a bid, but the contract was awarded to AmeriPark. Aviation and Park Inc. agreed that Park Inc. would cease operations on May 31, 2014, and AmeriPark would take over a month before the Park Inc. contract officially expired. To facilitate the contract close-out, Aviation requested assistance from Internal Audit to conduct a financial review of Park Inc. The purpose of the review was to determine whether Park Inc. met contractual requirements and only requested reimbursement for expenditures for which they were entitled.

On June 1, 2014, AmeriPark took over valet operations at the Airport. Through June 2015, Aviation had paid AmeriPark over \$4.8 million (including start-up costs) since the start of valet operations. These costs are prepayments of eligible payroll and operating expenses resulting from the valet operation as well as \$24,000 in management fees and incentives to AmeriPark for operating the Airport's valet parking operation on behalf of the Airport.

Findings and Recommendations

1. Park Inc. had not been required to submit sufficient data to facilitate a thorough audit.

As noted in the McGladrey Turn Over Review, Aviation had committed limited resources to provide contract administration services for its large number of revenue contracts and agreements. Aviation has since established an Airport Business Office which is responsible for revenue contract management, leasing, tenant negotiations, and economic and business development. However, Aviation is still in the process of adding resources, developing roles and assigning responsibilities to staff. During the review of Park Inc., auditors noted that the previous lack of oversight resulted in challenges to verifying the accuracy of reported revenue and expenditures.

Auditors were able to perform limited payroll testing and analysis. Based on the review, payroll expenditures appeared reasonable and accurately stated. However, the audit was limited by the inability to determine the actual existence of Park Inc. employees during specific time periods. Auditors noted that Aviation personnel had not previously documented any measures taken to periodically verify the existence of employees or to perform periodic staffing analysis. Auditors noted large variances from month to month in the level of revenue per labor hour, indicating the possibility that staffing levels were not monitored and adjusted to match activity levels, as necessary.

In an attempt to verify revenue reported by Park Inc., auditors reviewed documentation related to voided transactions, discounts and "no pay" tickets. The level of such transactions was less than 1%. However, auditors were not able to confirm whether specific transactions were appropriate due to the lack of an audit trail for these transactions. Therefore, a risk exists that the voided or discounted transactions may have been erroneous or unwarranted. Auditors noted that Aviation personnel had neither questioned the level of discounted or voided transactions, nor asked for additional information regarding such transactions.

The preliminary results of the Parking Valet audit, which focused on Park Inc., were communicated to Aviation and Park Inc. representatives in September 2014. Auditors noted that a lack of controls and monitoring made the contract close-out review difficult to either verify or dispute reported revenues and expenses. Auditors expanded the scope of the valet parking review to AmeriPark to ensure that control weaknesses identified during the review of Park Inc. have been addressed.

Action Taken: Auditors utilized the knowledge gained during its review of Park Inc. to create an audit plan for AmeriPark. The results of that effort follow.

2. Aviation should establish and document a formal contract administration plan.

A contract administration plan is a useful tool for managing risks associated with contracts, and for ensuring that negotiated service levels are actually delivered. Even for relatively simple, low-risk contracts, a contract administration plan (or simple check list) will help to make sure that important obligations are not overlooked and the intent of the contract is achieved.

Contract administration plans typically contain a summary of contract details such as key contacts, dates and milestones, roles and responsibilities of personnel, contract terms and conditions, communication and reporting schedules, performance indicators and measures, pricing and payment conditions, and risk assessments. The detail required in a contract management plan depends on the risk and complexity of the contract – ranging from a simple summary of key details to comprehensive documents for more complex contracts. For the valet parking agreement, many of the elements described above are included within the agreement with AmeriPark. However, the key items missing include a clear definition of the roles and responsibilities of specific Aviation employees and documented risk assessments and associated mitigation strategies.

Without a formal contract management plan with delineated duties, individual employees are more likely to take a cursory approach to contract management, potentially resulting in insufficient oversight. For example:

- **Aviation does not require AmeriPark to submit detailed general ledger accounting reports to support monthly financial statements.** The agreement with AmeriPark requires that an annual certified revenue statement be provided by a Certified Public Accountant within 120 days of year-end. This timing would allow an error or irregularity to remain unidentified for up to 16 months. Verifying the accuracy and reliability of the accounting system utilized, obtaining detailed accounting records and selecting a sample of transactions for further review may be the most efficient way to obtain assurance that reported expenditures are reasonable, necessary and accurately reported. Currently, AmeriPark submits an electronic file of its monthly financial statement to several Aviation employees. In order to ensure that the statement was summed correctly would require that an Aviation employee manually confirm the arithmetic on the statement and supporting schedules. Auditors did not note any evidence that this is routinely done.
- **Aviation does not require AmeriPark to submit detailed payroll and expenditure support with each monthly financial statement.** AmeriPark submitted detailed supporting documentation for the month of June 2014. Subsequently, Aviation personnel requested that the voluminous detail not be provided but be available as requested. The absence of general ledger data (see above bullet) makes it difficult to verify the accuracy of reported expenditures, especially if detail supporting data was not available. Obtaining access to detailed supporting documentation would ensure that adequate audit trails exist, should trends or circumstances dictate a desire for closer review.

- **Aviation personnel had not conducted a documented risk assessment of financial and operational risks associated with the valet parking agreement.** Such a risk assessment would consider reputational, compliance, strategic, transactional and credit risks. The contract management plan would include documented mitigation strategies to address the identified risks. The valet parking agreement actually addresses many of the key risks. For example, the agreement includes a quarterly performance incentive clause that is based on customer service, operational efficiency, and contract compliance. However, Aviation personnel had not assigned appropriate resources to consider the risks involved in the contractor's self-evaluation nor had personnel identified what, if any, elements included in the self-evaluation would require Aviation verification.

Formal risk assessment for the valet parking operations could include assessing risks and identifying mitigation strategies for the following areas:

- a. Staffing levels – Determine how, when, and by whom staffing levels would be analyzed and reviewed.
- b. Employee verification – Identify controls in place to ensure that payments are made only to employees performing actual work at the Airport valet operations.
- c. Revenues from ancillary services – Risk exists that expenditures may exceed revenue from ancillary services. Determine how to best ensure that Aviation receives a benefit from ancillary services.
- d. AVPM failure – Determine whether procedures are in place to ensure continued operations during system failure.
- e. Customer satisfaction – Determine who is responsible for ensuring that quality assurance standards are met.
- f. Compliance – Identification of key contract compliance elements and identification of who will be responsible for verifying compliance (insurance, reports, training, E-Verify, operational standards).

Additional risks related to revenue, expenditures and the performance incentive are addressed in the remainder of this report.

Recommendation: Aviation should prepare a contract management plan, including documented roles and responsibilities of Aviation employees, identification of required levels of supporting documentation and a risk assessment with associated mitigation strategies.

Action Taken: Aviation hired a Business and Relationship Manager in June 2015.

Aviation Response: Agrees. Aviation has updated a list of roles/responsibilities and is currently working on a business case study to help ensure risk is properly assessed. Aviation has also requested that AmeriPark provide a monthly summary of payroll and make detailed payroll data available upon Aviation request. Contract administration, including contract compliance and risk assessment, will be the responsibility of the Business and Relationship Manager.

3. Aviation should verify the reliability of data from the Automated Valet Parking Management (AVPM) system.

Valet parking is a significant source of revenue for the Aviation Department. During FY2015, Aviation collected over \$13.9 million in valet parking revenue. When contracting with third-party vendors, it is a sound business practice to be familiar with the automated systems used by the vendor to capture and record revenue. It is advisable that consumers of technology and data services require some level of assurance regarding technology controls and data security. Where practical and available, contract managers should obtain Service Organization Controls (SOC) reports, typically conducted by a CPA firm. The American Institute for Certified Public Accountants (AICPA) has designated three separate reports, SOC 1, SOC 2 and SOC 3, each with its own unique focus and intent. A SOC 2 Report, which is titled a "Report on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy," focuses on a vendor's operational and compliance controls.

The AVPM vendor has not been required or requested to have a SOC 2 Report prepared. Auditors noted that Aviation personnel had not considered or determined the reliability of information reported from the AVPM system. Aviation personnel have not been recording revenue based on AVPM reports. Instead, AmeriPark management has been creating an Excel spreadsheet based on information from AVPM reports. Without comparing the Excel reports to actual AVPM reports or data, Aviation personnel do not have assurance that revenue is accurately reported.

Action Taken: Auditors obtained reasonable, but not absolute, assurance that data from the AVPM system is reliable. Auditors met with the system vendor and observed the software in operation. In addition, auditors reviewed 50 vehicles on a selected day and verified that the vehicles-were entered correctly in the system, charged the correct amount of parking fees and reported correctly to Aviation. Auditors also verified that the resulting revenue was appropriately recorded in the financial system.

Recommendation 3A: In its contract administration plan, Aviation should include discussion on the significance of validating reported revenue. The plan should include when and how automated systems will be reviewed to determine the reliability of system data. In addition, the plan should discuss the need and format for periodic review and analysis of reported revenue.

Aviation Response: Agrees. Aviation has determined that it would be most useful to have access to the AVPM system in order to verify the accuracy and reliability of system information. Therefore, Aviation installed the system, and retains access to data.

Recommendation 3B: In future revenue contracts, Aviation should consider establishing a requirement that vendors provide SOC reports as applicable.

Aviation Response: Agrees. The newly created Business and Relationship Manager position will be responsible for determining the need for an assessment of controls of its revenue management partners and the feasibility of requesting and obtaining SOC reports.

4. Aviation should ensure that credit card tips remitted to AmeriPark are not reported as revenue or expenses.

In accordance with Article IV of the Valet Services agreement, each month Aviation is required to pay AmeriPark one twelfth of the estimated reimbursable expenses stated in the annual budget. Within 30 days of the end of each service year, AmeriPark is required to pay the amount, if any, by which actual reimbursable expenses were less than the amount of expenses stated in the annual budget. The agreement does not specifically mention tips. However, estimated monthly tips are included in the annual budget.

Parking revenue (including credit card tips) is deposited to the Aviation operations bank account. Parking revenue is recorded in the Munis financial system as revenue and the credit card tips are recorded as a liability. However, Aviation makes the monthly advance payments to AmeriPark in an amount that includes expected credit card tips. These advance payments are recorded as expenditures in Munis. The portion of the advance attributable to expected tips (\$86,495, as established by the approved budget) should offset the recorded liability. Advance payments for six months (July through December 2014) included \$518,970 for tips, compared to AmeriPark records indicating FY2015 credit card tips of \$501,672.

Because payment of the average monthly tip amount is recorded as an expense, the balance sheet liability has not been reduced, resulting in an overstatement of expenditures and the outstanding liability. Although a journal voucher for \$979,502 was processed in December 2014 to credit expenditures for tips recorded in FY2014, the outstanding balance in the account exceeded \$1.6 million as of February 2015. It is anticipated that Aviation Finance will work with Management & Financial Services staff to ensure that the liability is recorded correctly.

Recommendation: Aviation should obtain agreement from AmeriPark to eliminate the \$86,495 tip advance from the monthly payment, and begin reimbursing AmeriPark actual tips received (and deposited) on a regular (weekly or monthly) basis.

Aviation Response: Agrees. A journal entry was processed to correct outstanding errors. Going forward, a new process has been put in place to ensure that tip amounts are recorded accurately. Journal vouchers will be processed quarterly to correct any errors. Aviation is working with City Financial Reporting to determine the most practical method to adjust the tips liability account.

5. Aviation should ensure that a specific individual is assigned to validate and adjust the vendor's self-evaluation of its performance.

The AmeriPark valet parking agreement includes "Exhibit C – Performance Incentive." The purpose of the performance incentive is to reward the vendor and its employees for meeting and exceeding the Airport's expectations. The metrics included in the exhibit center around customer service, operational efficiency and contract performance. According to the Exhibit, "the final evaluation of the metrics will be determined in the sole discretion of the Airport." However, auditors noted that Aviation has not assigned a specific individual to oversee the self-evaluation. Based on preliminary observations, auditors noted the following:

- Although the contract requires that the vendor provide a self-evaluation no later than 45 days after the end of each quarter, Aviation had not received the first quarterly evaluation as of November 20, 2014.
- There was no evidence that Aviation personnel had received or evaluated the source data for the customer survey, mystery shopper and quality assurance team review metrics. Aviation personnel also did not provide evidence that they had reviewed and accepted the customer survey instrument or sampling methodology. Although auditors noted various operational improvements that were made during the audit period (introduction of backup credit card machines, cameras, staging practices), there was no formal documentation of discussions between Aviation personnel and AmeriPark.
- AmeriPark line personnel were not familiar with the requirement that 25% of the performance incentive be shared with employees. As the employee share is reduced a dollar for each dollar over \$30,000 in annual damage claims, it is important that AmeriPark employees are aware of the incentive, to provide motivation to limit damage to vehicles. The contract requires that the incentive calculation be performed quarterly but shared with employees on an annual basis. The first contract year ended May 31, 2015.
- Aviation personnel had not obtained the necessary data to calculate the number of cars parked per labor hour or determine whether the standard of 2.5 to 3.5 cars parked per labor hour was appropriate. Based on the disparity between the times required to park cars incoming at curbside valet versus business valet, it would be more appropriate to have separate standards for the distinct operations.

Recommendation: Aviation should ensure a specific individual is assigned to evaluate contractor performance and review the vendor's performance incentive self-evaluation.

Action Taken: Aviation hired a Business and Relationship Manager in June 2015.

Aviation Response: Agrees. The new Business and Relationship Manager is responsible for the review and validation of the performance evaluation included in the parking management contract.

CITY OF CHARLOTTE AVIATION DEPARTMENT

July 31, 2015

TO: City of Charlotte Internal Audit
FROM: Brent Cagle, Interim Aviation Director
CC: Haley Gentry, Asst. Aviation Director – Business and Revenue
RE: Aviation response to Airport Valet Parking Audit

Aviation recognizes the need to manage contractual compliance and financial controls of its revenue contracts. Toward that end, Aviation invited the City's Auditor Office – Internal Audit to assess and report on the level of internal controls related the Airport's Valet Parking operation ("Valet Audit"). The original request for audit focused on the previous valet operator, Park Inc. However, Aviation and Internal Audit mutually agreed to focus on the agreement with the new valet operator, AmeriPark, LLC, whose agreement with the City became effective in June 2014.

Aviation actively engaged in developing the scope of the audit and in collecting the data necessary for Internal Audit's review. Internal Audit provided five recommendations related to improved controls and management of the valet parking operation. Aviation generally agrees with the recommendations and provided Internal Audit with a proposed action plan in response to the recommendations.

In general, the valet parking review identified the need for Aviation to:

- establish and document a contract administration plan;
- provide the installation of a new airport valet parking management (AVPM) terminal;
- modify the accounting treatment of reimbursable valet tips; and
- provide enhanced contract management and validate self-evaluation.

Internal Audit's review also noted Aviation's need to hire additional professional staff to be responsible for contract administration, compliance, and risk assessment. Aviation filled the position of Business and Relationship Manager position in June 2015. The Business and Relationship Manager's current roles and responsibilities include creating a contractual administrative process to ensure all procedural and documentation requirements are followed, including revenue collection, systematic reporting and

service quality reviews. The Business and Relationship Manager will also develop a formal contract management plan which will include:

- defining roles and responsibilities of personnel;
- requiring levels of supporting documentation;
- developing risk mitigation strategies, and
- evaluating operator's self-evaluation of its performance as required by the agreement.

The contract management plan is anticipated to be complete by the end of calendar year 2015.

Aviation has acquired and installed an AVPM terminal system to verify the accuracy and reliability of the AVPM system data which is provided by AmeriPark. The AVPM system allows Airport staff to perform periodic audits and verify the accuracy and reliability of system data. The Business and Relationship Manager will be responsible to use information from the revenue control system to verify the accurate reporting from the valet operator.

Aviation worked with the City's Management and Financial Services Department (M&FS) to implement suggested accounting protocols related to the appropriate accounting treatment of tips collected by the Airport and reimbursed to the valet operator. Aviation is currently working with M&FS to explore an alternative method to reimburse tips and continue to meet Aviation's contractual obligations with the vendor.

In conclusion, Aviation found significant value in Internal Audit's review of the Airport's valet parking operation. We feel that the recommendations provided by Internal Audit and the resulting actions taken by Aviation will provide the controls necessary to effectively manage the valet parking contract.