



**CHARLOTTE**<sup>SM</sup>

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**INTERNAL AUDIT**

**Audit Report  
Airport Turn Over Reviews Follow-Up  
August 11, 2015**

**City Auditor's Office  
Gregory L. McDowell, CPA, CIA**

**Audit Report**  
**Airport Turn Over Reviews Follow-Up**  
**August 11, 2015**

**Purpose and Scope**

The intent of this audit was to determine the implementation status of recommendations made by McGladrey LLP (McGladrey) in two separate Charlotte Douglas International Airport (Airport) Turn Over Reviews dated June 11, 2014. McGladrey conducted its initial fieldwork between October 2013 and February 2014. The Aviation Department (Aviation) identified and tracked progress on 52 recommendations in eight separate categories. Auditors reviewed and assessed management's progress in implementing the recommendations.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 Aviation management.

**Conclusion**

Management has made progress in implementing the McGladrey recommendations but needs to complete the implementation of some critical processes and formally adopt policies and procedures. Aviation has established plans to resolve the most significant remaining issues within reasonable timeframes.

**Summary of McGladrey Recommendations by Category**

McGladrey reported a total of 24 findings in its two reports. Many of the findings had multiple recommendations. Aviation has therefore addressed a total of 52 recommendations. The chart on the next page summarizes the recommendations by category and whether audit testing determined that the recommendations have been implemented (33), partially implemented (19) or not yet implemented (none).

In addition to Aviation, Management and Financial Services (M&FS) is responsible for addressing some of the recommendations. For recommendations considered "Partially Implemented," Internal Audit has identified those that are the responsibility of M&FS.

McGladrey Risk Area (Recommendation #'s)	✓ Implemented	✓ Partially Implemented		X Not Implemented		Total
		Aviation	M&FS	Aviation	M&FS	
Revenue and Contract Management (1 – 5)	4	1	0	0	0	5
Project and Capital Asset Accounting (6 – 17)	8	4	0	0	0	12
Contract Facility Charges (CFCs) (18 – 22)	4	0	1	0	0	5
Airport Special Statements (23 – 24)	0	1	1	0	0	2
Cost Allocation Plan (CAP) (25 – 28)	2	0	2	0	0	4
Debt Management and Unused Bond Funds (29 – 34)	6	0	0	0	0	6
Parking (35 – 46)	5	7	0	0	0	12
Procurement (47 – 52)	4	1	1	0	0	6
<b>Total</b>	<b>33</b>	<b>14</b>	<b>5</b>	<b>0</b>	<b>0</b>	<b>52</b>

Attachment A contains a matrix indicating the implementation status of each recommendation. The following legend can be used to ascertain the status of recommendations:

- ✓ - Implemented – The recommended action was taken and/or current testing indicated that the original issue has been resolved.
- ✓ - Partially Implemented/Resolved – The recommended action has been started but not yet completed or the recommended action has been completed but testing identified that the original issue has not yet been fully resolved.
- X - Not Implemented – The recommended action has not been completed. Auditor’s judgment was used to determine whether a recommendation was considered implemented, partially implemented or not implemented. The significance of the original recommendation, progress made through February 2015 and the nature of the remaining action necessary were all considered in determining the reported status.

### **Internal Audit Summary Recommendations and Actions**

Aviation has made progress in addressing the McGladrey recommendations, but needs to complete the implementation of critical processes and formally adopt policies and procedures. The Interim Aviation Director's response to the full report is included as Attachment B.

- Aviation management has assigned an individual within its Finance division to coordinate the implementation of the recommendations included in the Turn Over Reviews, including the formal adoption of policies and procedures.

### **Background**

McGladrey conducted Turn Over Reviews of Aviation, resulting in the issuance of two reports in June 2014. The first review focused on six high-risk core areas identified by management and outlined as the first six categories in the summary of implementation chart above. The second review targeted parking revenue and purchasing. For each area reviewed, the reports included observations and recommendations for improvement. According to Aviation management's initial response, most of the recommendations were expected to be fully implemented by the end of calendar year 2014.

### **Audit Finding and Recommendation**

1. **Aviation has made progress in addressing the McGladrey recommendations, but needs to complete the implementation of critical processes, including the formal adoption of policies and procedures.**

McGladrey made 52 recommendations to address high-risk operational areas at the Airport. In July 2014, Aviation management projected that all but two issues would be addressed by calendar year-end. As of the audit report date, 33 of the recommendations had been implemented, as detailed above. The remaining 19 recommendations were partially implemented, including several recommendations related to developing policies and procedures for the following areas:

- pay application review
- project management
- bidder selection
- grant compliance
- change orders, and
- parking operations

While Aviation was able to provide Internal Audit with draft policies and procedures during fieldwork, not all of the policies and procedures have been formally adopted and incorporated into daily routines.

Aviation has utilized Smartsheet, a project management tool that allows for collaboration within the department to assign responsibility, document progress and establish completion timeframes. However, management initially had not assigned a dedicated individual to oversee the implementation of the recommendations across the organization. This resulted in inconsistent responses and some inaccurate reporting of implementation statuses. During the audit, management assigned an individual to be responsible for coordinating the reporting, documentation and verification of implementation actions across the organization which improved reporting consistency.

***Recommendation:*** Aviation should continue to utilize the implementation matrix to assign individual responsibility to, and monitor the implementation status of, recommendations that are not considered fully implemented, including the formal adoption of policies and procedures.

***Management Response:*** Agree. Aviation will utilize the Smartsheet project management tool and the implementation matrix to assign individual responsibility to complete implementation of recommendations contained in this review, including the formal adoption of policies and procedures.

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
			Conclusion	Status	
1	Contract Administration - begin to develop centralized contract management team.	Completed - Aviation has created an Airport Business Office and worked with Human Resources to create and fill a Business and Relationship Manager position.	Implemented - Aviation has established the Airport Business Office, documented a new organizational structure and has hired a Business and Relationship Manager to oversee revenue contracts.		Aviation
2	Contract Administration - Independent Validation - Document policy/procedures on independent validation of revenue contract supporting documentation, including annual audit plan.	In Progress - Aviation has requested that Internal Audit develop an annual audit plan and worked with Human Resources to fill the Business and Relationship Manager position. This position will be responsible for developing policies and procedures for validation of supporting documentation.	Partially Implemented - Aviation has worked with Internal Audit to develop an annual audit plan but has not yet developed formal policies and procedures for validation of contract supporting documentation. According to Aviation, the newly established Business and Relationship Manager will be responsible for reviewing revenue contract requirements and developing suggestions for possible policies and procedures to better manage those contracts.		Aviation
3	Contract Administration - identify and resolve invoicing issue, in regards to DHL issue.	Completed - Aviation has invoiced DHL for ground rent identified in the observation and DHL has executed a letter of acknowledgement confirming the 25 year amortization term.	Implemented - Auditors noted that adjustments were made to the DHL billing in accordance with the ground rent escalation terms and that DHL executed a letter of acknowledgement confirming the 25 year amortization term.		Aviation

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
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4	Contract Administration - Contract Approval & Documentation - Document policy and procedures around revenue contract management and utilize tools that PROPworks system provides.	In Progress - Aviation has established some internal procedures regarding revenue contracts and has provided training to employees on tools to be utilized through PROPworks.	Implemented – Internal Audit reviewed procedures and training materials for PROPworks and selected a sample of agreements and noted that contract and billing terms were properly reflected in PROPworks. Aviation management noted that they will continue to seek ways to improve contract management through increased use of the capabilities of the PROPworks system.		Aviation
5	Right to Audit Clause - Add the "Right to Audit Clause" to all future revenue contracts.	Completed - Airport Business Office will include a right to audit clause in revenue contracts and will work with Internal Audit to identify the best opportunities to exercise the right to audit.	Implemented – Internal Audit selected a sample of agreements after July 1, 2014 and noted that right to audit clauses were included in contracts except for several irregular airline operating agreements where an older template was still in use.		Aviation
6	Pay Application Review Process - Formalize and document policy and procedures, including checklist to document reviews and reconciliations performed throughout the review process.	In Progress - Completed draft of policy, procedures and checklist. Formal adoption of procedures is pending the formal move of construction procurement from Aviation Development to Aviation Finance.	Partially Implemented - A draft copy of procedures was provided by Aviation staff but has not been formalized as department policy.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
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7	Policy and Procedures - Project Management Process - Formalize and document policy and procedures, including checklist to document key procedures from project initiation to project closeout.	In Progress - Completed draft of policy, procedures and checklist. Formal adoption of procedures is pending the formal move of construction procurement from Aviation Development to Aviation Finance.	Partially Implemented - A draft copy of procedures was provided by Aviation staff but has not been formalized as department policy.		Aviation
8	Policy and Procedures - Bidder Selection Process - Formalize and document policy and procedures, including a checklist to document bid process milestones performed throughout the bidding process.	In Progress - Completed draft of policy, procedures and checklist. Formal adoption of procedures is pending the formal move of construction procurement from Aviation Development to Aviation Finance.	Partially Implemented - A draft copy of procedures was provided by Aviation staff but has not been formalized as department policy.		Aviation
9	Policy and Procedures - Grant Compliance Reporting Process - Formalize and document policy and procedures, including a checklist to document key procedures from grant pre-application to grant closeout.	Completed - Documents located on Y Drive (Finance/ERP Policy & Procedures)	Implemented – Aviation staff provided policy and procedures, including a checklist, for grant processes from pre-application to closeout.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
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10	Change Order Process - Formalize and document policy and procedures. Be sure policy and procedures documented comply with the Change Order Summary. Establish checklist as part of the change order form, checklist items include but not limited to: purpose of change, entitlement determination, AE drawings, engineer input (as needed), cost (including support), and impact on overall project schedule.	In Progress - Completed draft of policy, procedures and checklist. Formal adoption of procedures is pending the formal move of construction procurement from Aviation Development to Aviation Finance.	Implemented - In the McGladrey report, management’s response was “Aviation and Development does not believe change orders need to include backup documentation when delivered to management for execution. All backup documentation is filed for easy access in the event additional information is required.”  Auditors verified that backup documentation exists for selected sample of change orders.		Aviation
11	Grant Application / Funding Process - Formalize and document policy and procedures, including a checklist to document reviews, cash flow and other analysis performed.	Completed - Documents located on Y Drive (Finance/ERP Policy & Procedures)	Implemented – Aviation provided policy and procedures, including a checklist, for grant compliance.		Aviation
12	Capital Projects & Grants - Shadow Capital Projects Cost Report - Continue to maintain involvement with ERP implementation process.	Completed - Shadow reporting no longer used after conversion to Munis.	Implemented - Aviation no longer uses duplicate shadow system with implementation of Munis ERP system.		Aviation

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13	Pay Applications Review and Approval - Implement controls in review process that includes: Recalculating the roll-up of the schedule of values for each monthly pay application for accuracy of the amounts being billed and documentation of review/approval steps in the pay application review process.	In Progress - Completed draft of policy, procedures and checklist.	Implemented - Auditors reviewed a sample of five pay applications from FY2015 and noted that amounts were properly calculated and that schedules of values were accurately rolled-up to the pay application summary. Auditors noted that required approvals were evident on the sampled pay applications.		Aviation
14	Pay Applications Review and Approval - Pay application review; Retainage Control - Implement a control in the pay application review process that includes reviewing the retainage amount for each pay application for accuracy and consistency with the contract terms - this task goes with task #13.	In Progress - Completed draft of policy and procedures.	Implemented - Auditors reviewed a sample of five pay applications from FY2015 and noted that retainage was properly calculated based on contract terms.		Aviation
15	Pay Applications Review and Approval - Implement use of pay application review/approval checklist - this task goes with task #13 & #14.	In Progress - Completed draft of policy, procedures and checklist	Implemented - Auditors reviewed a sample of five pay applications from FY2015 and noted amounts on the pay applications were accurately calculated and included evidence of required approvals.		Aviation

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16	Change Order Process - Approval Threshold - Continue to work with City regarding the City Council threshold to ensure proper approval is obtained as per City's procurement policy.	In Progress - Aviation will work with the City regarding City Council threshold requirement. Aviation is currently utilizing consultants to provide analysis of Aviation procurement business process. The consultant has identified possible improvements in a draft report, which will be finalized in Fall 2015.	Partially Implemented - Aviation has hired consultants to provide analysis of Aviation procurement business process, which includes identifying process improvements that the City could implement to allow Aviation more flexibility or greater speed in procuring goods and services.		Aviation
17	Change Order Process - Inclusion of clear description and documentation as to the purpose and nature of the change in the determination of entitlement of change order to be included on change order form.	Completed - Completed draft of policy/procedures.	Implemented - Auditors verified that a selected sample of change orders contained clear descriptions and documentation as to the purpose and nature of the change orders.		Aviation
18	Automobile Rental Concession Agreements - Create and distribute letter to Car Rental companies regarding compliance with contract terms and conditions - more specifically centered on self-reporting requirements.	Completed - Aviation notified all rental car concession companies of their requirement to comply with financial, CFC and activity reporting requirements as required by the terms of the 2011 Rental Car Concession Agreement.	Implemented – Aviation notified all rental car concession companies of their requirement to comply with CFC reporting requirements. For the period July through November 2014, Internal Audit noted that vendors submitted their fees by the 25th of the succeeding month 91% of the time.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
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19	Automobile Rental Concession Agreements - Reconciliation of supporting documentation to the CFC trust statements and GL to occur periodically.	Completed - Aviation obtains copies of the CFC Trustee statements from City Finance and compares and reconciles the monthly CFC activity reports; City Finance ensures that the trust statements agree to the City’s general ledger.	Partially Implemented – Auditors found that Aviation staff reconciles the CFC activity reports to the trustee statements. For the period July 2014 through November 2014, no exceptions were noted. However, Auditors noted that Finance had not recorded FY15 trustee deposits in the City’s general ledger.		M&FS Financial Reporting
20	Automobile Rental Concession Agreements - Use of CFC - create and distribute Aviation standardized self-report form to be used by car rental companies.	Completed - Aviation monitors CFC reports and requests vendor compliance if reports do not contain adequate documentation of rental days.	Implemented – Internal Audit noted that rental car companies submit monthly reports that meet the minimum data requirements of Aviation.		Aviation
21	Automobile Rental Concession Agreements - Aviation Management to schedule and carry out regular periodic review of monthly reports to ensure compliance.	Completed - Monthly reports are reviewed for completeness and adherence to requirements.	Implemented – While auditors noted that Aviation staff review and input the monthly activity reports, this has not increased the timeliness of reporting, as the reports are not always received by the 10th of the month.		Aviation

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
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22	Automobile Rental Concession Agreements - Aviation to review Trustee statements and identify any discrepancies with the CFC reports received.	Completed - Aviation obtains copies of the CFC Trustee statements from City Finance and compares and reconciles the monthly CFC activity reports.	Implemented – Auditors noted that an Accountant reconciles deposits recorded on CFC Trustee statements to monthly CFC activity reports. For the period July 2014 through November 2014, no exceptions were noted.		Aviation
23	Reconciliation of CAFR to Airport Enterprise Fund Financial Statements	In Progress – The City issued the inaugural Airport Annual Report for FY 2014 in June 2015, which included all relevant reconciled financial statements.	Partially Implemented – Subsequent to audit fieldwork, Aviation provided the inaugural annual report which agreed to the City's CAFR.		M&FS Financial Reporting
24	Timing of Submission and Reconciliation of Financial Reports to the FAA.	In Progress - FY13 certified. FY14 preliminary figures entered into FAA website and were finalized and certified upon completion of consolidated Annual Report in June 2015.	Partially Implemented - Aviation did not submit the completed FAA report within the 120 days noted in the McGladrey recommendation. However, Aviation personnel were in contact with the proper FAA representative and requested appropriate extensions.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
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25	Methodology Documentation and Monitoring - Ownership of the CAP – The Office of Strategy and Budget (S&B - formerly Budget and Evaluation) to be responsible for accumulating the CAP data and Aviation staff responsible for accuracy of CAP data.	Completed - City S&B has worked with an external consultant to review the City’s current CAP methodology and make recommendations for changes to ensure compliance with OMB Circular A-87.	Implemented – S&B has not developed formal policies and procedures to document and monitor the CAP. However, the division has taken the lead in working with an external consultant to develop a CAP that is in compliance with OMB Circular A-87 requirements.		M&FS Office of Strategy and Budget
26	Methodology Documentation and Monitoring - Documentation of CAP Methodologies by department to ensure consistency of retention requirements.	Completed - City S&B has retained documentation supporting departmental cost allocations.	Implemented - Internal Audit selected a sample of department allocations from the FY2015 CAP and noted that Budget and Evaluation had retained adequate supporting documentation for each allocation.		M&FS Office of Strategy and Budget
27	CAP Approval – Office of Strategy and Budget to obtain FTA approval of OMB Circular A-87 as required.	In Progress - City S&B submitted the FY16 CAP to the FTA for approval in July 2015.	Partially Implemented - S&B submitted the FY16 CAP to the FTA in July 2015 but has not obtained FTA approval.		M&FS Office of Strategy and Budget

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
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28	Basis for Cost Allocation Plan - Actual expenditures as basis for CAP pursuant to OMB Circular A-87.	In Progress - City S&B submitted the FY16 CAP to the FTA for approval in July 2015. This was the first CAP submitted based on actual expenditures (i.e., FY14 actuals). A "true-up" of FY16 allocations to actual amounts will occur when actual FY16 amounts are available.	Partially Implemented - S&B submitted the FY16 CAP to the FTA in July 2015. The CAP was based on FY14 actual expenditures.		M&FS Office of Strategy and Budget
29	Bond Funded Project Invoice Support, Coding and Tracking - Invoicing - Advised contractors to submit one project per invoice and/or PO, including direct payments.	Completed - Aviation Finance has requested current contractors provide individual invoices for each project. If contract terms or circumstances prevent individual invoices, Aviation will request invoices with line-item detail for each discrete project.	Implemented - Internal Audit sampled invoices from a vendor on multiple projects (W Terminal Expansion and Baggage Handling Construction) and verified they are submitting separate invoices for different projects.		Aviation
30	Bond Funded Project Invoice Support, Coding and Tracking - Direct Payments - Schedule invoice sampling for project related invoices to ensure coding is done accurately.	Completed - Direct Payments are no longer allowed as part of Munis conversion.	Departments have been allowed to use direct pays with wet signature authorization and appropriate expense account data written on the physical invoice. Auditors reviewed 15 Aviation direct payments over \$25,000 and noted that Aviation's use of direct pays was consistent with City policy and resulted in accurate project coding.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
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31	Bond Funded Project Invoice Support, Coding and Tracking - Invoicing - Aviation staff to periodically sample project invoices and verify amounts are coded correctly.	Completed - Although no invoices are sampled periodically, projects are carefully verified to ensure coding is done correctly prior to payment. When a vendor submits an invoice, Aviation Finance reviews for amounts and correct coding before forwarding to project managers to confirm the work was actually completed.	Implemented - Aviation hired a full-time project cost and grant accountant in November 2013 to verify invoices prior to payment. Internal Audit reviewed an invoice that was rejected due to incorrect project coding and re- sent to the vendor for correction. Auditors also selected five invoices for testing and verified that amounts were coded correctly.		Aviation
32	Financial, Debt Management, and Accounting Policy for the Airport - Project Review and Tracking Procedures - Aviation Project Accountant to periodically sample project invoices and verify project funding source is accurate. This task is associated with Task #31.	Completed - Although no projects are sampled periodically, projects are carefully verified to ensure funding sources are from the correct account. Aviation Finance reviews for correct amounts and coding before forwarding to project managers to confirm the work was actually completed.	Implemented - Aviation hired a full-time project cost and grant accountant in November 2013 to verify invoices prior to payment. Auditors reviewed five invoices for the rental car facility and hourly deck project and verified that funding sources were accurate.		Aviation

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
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33	Financial, Debt Management, and Accounting Policy for the Airport - Unused Bond Proceeds - Prepare summary of bond proceeds that are unspent and develop a plan for use of unused bond proceeds This task is to be done in accordance with City's Financial Department Policy.	Completed - The Airport has prepared a draft plan for the use of unspent bond proceeds. Since implementation of the plan, the City has expended all proceeds in the 2004 Bonds Construction Fund. The Airport has also identified current active projects which require use of remaining bond funds in respective Series 2007; 2010; 2011; and 2014. Airport Finance will meet with City Finance – Treasury no less than once a year to review unused Bond Proceeds.	Implemented – Auditors reviewed the unexpended bond fund plan and noted that Aviation is working with City Finance – Treasury to periodically prepare a summary of unspent bond proceeds. The last summary was prepared as of October 31, 2014.		Aviation
34	Financial, Debt Management, and Accounting Policy for the Airport - Unused Bond Proceeds - City Finance to consult with Bond Counsel on Aviation's proposed plan for unused bond proceeds in accordance with City's Financial Department Policy.	Completed - Since the Airport does not currently anticipate using remaining bond proceeds for new projects, there is no need to contact bond counsel to request a tax opinion.	Implemented - Auditors reviewed a summary of unspent bond proceeds and noted that Aviation has identified active projects which require the use of the remaining bond funds.		Aviation
35	Vendor Contract - obtain new parking management firm.	Completed - New Vendor: SP+	Implemented - Aviation awarded a bid to SP+ to manage parking, effective April 1, 2014.		Aviation

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#	Recommendation	Management's Implementation Status	Internal Audit		Responsible Department
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36	Vendor Contract - Modify parking management contract to include modifications to cover non-performance issued should they arise.	Completed - New Vendor SP+ contract issued	Implemented - Auditors noted that the SP+ contract includes a list of fines for failure to provide "Required Reports" in Exhibit B. The Scheidt & Bachmann contract includes \$500 penalty if contractor fails to respond to major system failure within set timeframe.		Aviation
37	Vendor Contract - New parking management firm contract requires the performance of LPIs on a daily basis. Aviation Parking staff to monitor and ensure compliance with the LPI requirement.	In Progress - Aviation Parking Management acknowledges parking management company (SP+) requirement to provide nightly License Plate Inventory (LPI). Airport Parking Management acknowledges technical problems with LPI handheld equipment unload to the revenue control system (S&B). Airport Parking Management has been in regular communication with S&B regarding this issue. S&B provided a new operators manual to confirm proper handheld use and to troubleshoot possible problems. S&B conducted an on-site evaluation and resolved the issue in May 2015.	Partially Implemented – During audit fieldwork, auditors noted that LPI handhelds did not function properly for several months, therefore, no daily LPI reports were available to monitor. This is not in compliance with Article VI of the contract, which requires the vendor to complete nightly inventories. Subsequent to audit fieldwork, Aviation management worked with the system vendor to restore the desired functionality in May 2015.		Aviation

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38	Non-Revenue Parking - Access Cards - Aviation operations maintain access card list and conduct audit of list on annual bases.	Completed - Aviation management retrieved and terminated the use of all access cards and issuance of new access cards beginning Summer 2013.	Implemented - Auditors noted that Aviation has retrieved all access cards and has discontinued the issuance of access cards.		Aviation
39	Gate Reset - New parking management firm to maintain gate reset reports. Aviation management to conduct daily review of gate reset report.	Completed - Airport Parking developed and implemented a daily parking gate reset summary. Airport Parking utilizes information generated from the S&B revenue control system and information provided by the cashiers to identify each instance of a gate reset. This information is compiled daily on the parking gate reset summary and reviewed by Airport Parking management. It should also be noted that the Airport is currently underway with extensive public parking construction near the pay booths. This has resulted in a significant number of gate resets to provide required access by construction contractors. Airport management anticipates a decline in gate resets upon completion of the public parking improvements.	Partially Implemented – Auditors noted that daily gate reset reports (logs) are provided to Aviation management. Although management indicated that these reports are reviewed daily, auditors did not see evidence of these reviews as the reports and logs are not signed or initialed by Aviation management and no specific action was required in response to the daily reviews.		Aviation

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40	Financial Reporting and Monitoring - Daily Reconciliations - Aviation to ensure new Parking Management firm is providing back up documentation for all cancelled tickets and coupons issued.	Completed - Aviation Parking management requires that back up documentation be supplied for all cancelled tickets and coupons issued.	Implemented – Aviation requires that the vendor provide supporting documentation for each cancelled ticket and coupon issued. Auditors reviewed a sample of daily reports from January 2015 and noted that supporting documentation was obtained for each reported lost ticket and coupon issued.		Aviation
41	Financial Reporting and Monitoring - Daily Reconciliations - Scheidt & Bachmann (S&B) to perform training on the terminals for personnel operating the terminals.	In Progress - SB Terminal is not currently set up to handle PDR. Aviation Department is actively pursuing the implementation of cashiering system. Given Aviation Department budgetary restrictions this item is currently scheduled for FY17.	Partially Implemented - Although staff has been trained to operate the S&B terminal, the McGladrey recommendation was to have a fully functional cashier terminal available in the PDR to enable all transactions to be recorded in the system and eliminate a manual Cashier Payment Dispatch Log. Records were still kept manually in the PDR during Internal Audit's visit.		Aviation

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#	Recommendation	Management’s Implementation Status	Internal Audit Conclusion	Status	Responsible Department
42	Financial Reporting and Monitoring - Monitoring - Current canned report package purchased does not include access to several recommended reports. New Parking Management firm, who have extensive knowledge of parking system, will review current reporting and make recommendations to Aviation.	In Progress - Airport Parking management has met with representatives of SP+ to discuss reporting capabilities of the S&B parking revenue control system with the objective of enhancing review and analysis of public parking transaction activities. Aviation Parking personnel have been trained on how to pull reports which will assist Airport Management with the review and analysis of daily parking activities. Aviation is now actively pulling parking transaction data and conducting trend analysis.	Partially Implemented - Aviation provided auditors with examples of additional reporting capabilities but stated that a decision has not been finalized on which reports, if any, would be useful for trending and analysis. Subsequent to audit fieldwork, Aviation management noted that staff had conducted additional analysis and are now utilizing parking data for trend analysis.		Aviation
43	Policy & Procedures - Update existing policy and procedures to reflect current practices.	In Progress - Policy & Procedures for Parking Mgmt. Staff and Aviation Parking Staff have been updated and are under review by Aviation Legal Team. The two Policy & Procedures manuals will be combined into a master document after Aviation Legal Team review.	Partially Implemented - Aviation provided auditors with two draft policies that will be combined into one after Aviation Legal review. One policy was the SP+ cashier guidelines and the second was a cash handling guideline for Aviation Parking personnel. There were no specific guidelines on how Aviation monitors SP+, particularly what is reviewed daily, monthly, and annually. Providing detail on how Aviation manages the vendor allows for contract compliance, segregation of duties, and operational efficiency.		Aviation

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44	Insufficient Funds - Document and implement timeframe for writing off ISF transactions.	In Progress - ISF's previous to January 2013 have been written off. Aviation developed policy/procedures regarding ISF write offs. The policy/procedures will include all uncollectable ISFs to be written off 90 days following the end of previous fiscal year.	Partially Implemented. Aviation provided draft policies and procedures for the write-off of amounts owed. However, auditors noted that FY14 receivable amounts have not been written off and that an aging report of outstanding receivables is not available.		Aviation
45	Insufficient Funds - Aviation Parking and Aviation Finance to work with Scheidt and Bachman in the development of improved reporting capability.	In Progress - Aviation Parking generates daily insufficient funds (ISFs) reports from the S&B system. The daily ISF report is provided and reviewed by the Ground Transportation Manager on a daily basis.	Partially Implemented. Aviation provided documentation indicating that daily ISF reports are reviewed. However, auditors noted that an aging report of outstanding receivables is not available, as recommended in the McGladrey report.		Aviation

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46	Cashier Booth Security Cameras - Review practicality of adding security cameras to cashier booths as they are relocated to new exit plazas.	In Progress - Aviation has assessed the practicality of adding security cameras to public parking pay booths. Notwithstanding concerns related to the benefit-cost and financial feasibility of adding a security camera system to each cashier booth, Aviation feels it is not practical to consider implementation of security cameras when parking pay booths are scheduled for relocation in the Fall of 2015. Aviation will reassess the cost-benefit of adding security cameras following the relocation of the cashier booths.	Implemented. According to Aviation management, the feasibility of this recommendation was reviewed and it was determined that Aviation would reassess the cost-benefit of adding security cameras following a planned future relocation of the cashier booths in the fall of 2015.		Aviation
47	Vendor Master File Review - Perform annual review of master vendor file to minimize the risk of unnecessary multiple vendors.	Completed - Task was complete in preparation for ERP system implementation and remains ongoing.	Implemented – Under the City's new ERP system, Management and Financial Services reviews vendor files monthly and merges duplicate vendors. Staff indicated that this process is ongoing and is expected to take approximately one year to complete.		Aviation

**City of Charlotte  
Turn Over Reviews – Follow-Up**

#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
			Conclusion	Status	
48	Purchase Approval and Documentation - Purchases via Purchase Order - Periodically review of POs to ensure compliance with policy/procedures and identify deficiencies for follow up.	Completed - Compliance is built into requisition and purchase order change order approval workflows (Operating Funds only)	Implemented – Auditors reviewed a sample of Aviation purchase orders and noted compliance with City policies and procedures. Auditors also noted that Aviation has contracted with a consultant to identify process improvements that could be implemented to allow the Aviation Department more flexibility or greater speed in procuring goods and services. Results of this engagement are expected to be available in the spring of 2015.		Aviation
49	Purchase Approval and Documentation - Direct Payments - Although the direct payments were approved by the KBE or Deputy KBE, the proper process should have included submission of a modified or new purchase order prior to receipt of goods or services and invoice presentation.	Completed - Direct Payments are no longer allowed as part of Munis conversion.	Partially Implemented – Departments have been allowed to use direct pays with wet signature authorization and appropriate expense account data written on the physical invoice. Auditors reviewed 15 Aviation direct payments over \$25,000 and noted that Aviation’s use of direct pays was consistent with City policy.  Note: Wet signature authorization was eliminated in February 2015 as part of the on-going implementation of Munis controls.		Citywide (M&FS)

**City of Charlotte  
Turn Over Reviews – Follow-Up**

#	Recommendation	Management’s Implementation Status	Internal Audit		Responsible Department
			Conclusion	Status	
50	Use of Contract vs Purchase Order - Contract vs PO - Use of contract to define and document terms and conditions (in addition to those on the purchase order) when purchase is greater than \$10,000.00 for goods and services per Citywide new Procurement Policy.	Completed - The new City-wide Procurement Policy specifies the dollar thresholds whereby a contract is 'highly recommended' and 'required'.	Implemented – Auditors sampled payments over \$10,000 without associated contracts and found only one payment that did not have an associated contract or purchase order.		Aviation
51	Use of Contract vs Purchase Order - Contract Review - Aviation Legal team to maintain version control and the conversion to final legal-approved contract into a format that does not allow edits.	Completed - Given only certain contracts are subject to legal review, it is impractical for Aviation Legal to maintain version control for all contracts. Furthermore, all contacts requiring legal review are shared with Aviation Procurement for the processing of edits and locked for contract distribution and execution.	Partially Implemented – Auditors noted that Aviation considered the recommendation and determined that an alternate solution would meet their practical needs.		Aviation
52	Segregation of Duties and User Access - Review access levels and remove/delete unnecessary access levels.	Completed - Done as part of prep for Munis go live.	Implemented – Auditors reviewed documentation indicating that Aviation security roles were assigned in Munis in accordance with City policy. The ERP resource team periodically reviews access levels for conflicting roles.		Aviation

# CITY OF CHARLOTTE AVIATION DEPARTMENT

August 11, 2015

**TO:** City of Charlotte Internal Audit  
**FROM:** Brent Cagle, Interim Aviation Director  
**RE:** Airport Turnover Review – Compliance Audit

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In 2013, the City engaged the accounting firm McGladrey, LLC to initiate a turnover review ("Review") of the Charlotte Douglas International Airport. City and Airport Management identified certain high-risk core areas to be included in the Review. These areas included:

- Billing and Revenues;
- Internal Controls, Project and Capital Asset Accounting;
- Rental Car Contract Facility Charges;
- Reconciliation of the Airport Special Financial Statement with the Comprehensive Annual Financial Report;
- Expense Reimbursements to the City;
- Debt Management;
- Parking Revenue Management; and
- Airport Purchasing.

McGladrey published its Review including observations and recommendations on June 11, 2014. McGladrey reported a total of 24 findings, many findings having multiple recommendations. Airport Management, with assistance from the City's Management and Financial Services Department ("M&FS") responded to all 52 recommendations related to core high risk areas identified in the Review. In January 2015, Airport Management requested Internal Audit conduct a performance audit ("Performance Audit") to assess the progress in implementing all 52 recommendations in Turnover Review.

Airport Management was actively engaged in developing the scope of the Performance Audit and in collecting the data necessary for Internal Audit's review. As referenced in the Report issued by your office, we have made significant progress in addressing key recommendations contained in the Turnover Review. In total, we are pleased to report

the full implementation of 33 of 52 recommendations contained in the Turnover Review. We have also made significant progress in implementing 14 additional recommendations. The remaining five recommendations are being implemented by Management & Financial Services.

In connection with this effort, we have completed a thorough assessment of critical processes as referenced in both the Turnover Review and the Performance Audit. We will continue our efforts to enhance the documentation of critical processes and the formal adoption of policies and procedures, with a focus on the areas of:

- Pay application review;
- Project management;
- Bidder selection;
- Grant compliance;
- Change orders; and
- Parking operations.

Certain of these processes will be documented in connection with the proposed transfer of the Airport's construction procurement function from the Aviation Development Division to the Aviation Finance Division – Procurement Section. We believe this change in structure will provide a platform that will result in enhanced process consistency and customer service delivery.

In addition, Airport Management has dedicated certain personnel to oversee the implementation of recommendations resulting from the Turnover Review and Performance Audit. We are also expanding our use of technology based project management solutions which will allow for managing the documentation and verification of implementing the proposed recommendations.

In conclusion, Airport Management found significant value in the Turnover Review and Internal Audit's subsequent Performance Audit. These reviews have provided Airport Management with valuable recommendations and will help the Airport to identify, assess and mitigate financial and business risk levels.

cc: Michael Hill, Asst. Aviation Director - Finance  
Haley Gentry, Asst. Aviation Director – Business and Revenue