

Memorandum



CITY OF DALLAS
(Report No. A16-011)

DATE: June 10, 2016

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of Leasing, Concessions, and Other Activities for the Department of Aviation¹

The Department of Aviation (AVI) has certain contract monitoring controls in place to ensure the parking and car rental concessionaires operating at Dallas Love Field Airport (Airport) comply with concession contracts and the City of Dallas (City) receives the appropriate share of the concessionaires' revenue (see textbox).

In addition, AVI annually receives independent audit reports from the Parking Company of America (PCA) and the car rental companies certifying the accuracy of the revenue reported to AVI. The AVI does not receive independent audit reports for parking revenue processed by the North Texas Tollway Authority (NTTA) for vehicles using TollTags for Airport parking. In Fiscal Year (FY) 2014 and FY 2015, TollTag parking revenue comprised 53 percent and 54 percent of total parking revenue, respectively.

Airport Concession Revenues Background

The Department of Aviation (AVI) is responsible for monitoring contract compliance and the collection of the City of Dallas' (City) share of revenues associated with the following concessions:

Revenue Type	Adopted Budgets	
	Fiscal Year 2014	Fiscal Year 2015
Parking	\$15.8 million	\$24.3 million
Car Rentals	7.5 million	8.6 million
Food, Beverage, and Retail Sales	5.7 million	8.3 million

Concession contracts obligate concessionaires to pay the City the greater of a percentage of the monthly revenues or a minimum annual guarantee (MAG amount). This audit focuses on contract monitoring controls over the parking and car rental concessions.

Source: AVI Fiscal Year (FY) 2014 and FY 2015 Adopted

¹ This audit was conducted under the authority of the City Charter, Chapter IX, and Section 3 and in accordance with the Fiscal Year 2015 Audit Plan approved by the Dallas City Council. The audit objective was to evaluate the adequacy of management's controls of leases, concessions, and other activities. The audit objective was further defined to focus on AVI's contract monitoring controls over the parking and car rental concessions. The audit scope included management operations from FY 2014 through FY 2015; however, certain other matters, procedures, and transactions outside that period were reviewed to understand and verify information during the audit period. This performance audit was conducted 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 objective. To achieve the audit objective, we obtained and reviewed current contracts for parking and car rental concessions, interviewed AVI, PCA, and NTTA personnel, verified the mathematical accuracy of parking and car rental concession fee payments, and performed various analyses, such as reviews of independent audit reports of selected parking and car rental concessionaires.

The AVI can improve existing contract monitoring controls by:

- Developing and implementing formal (written, signed, and dated) policies and procedures for contract monitoring to establish an internal control framework
- Obtaining direct access to the Parking Revenue Control System (PRCS) and integrating with the NTTA parking system to monitor on an on-going basis the reasonableness of parking revenue

The AVI Does Not Have Formal Policies and Procedures for Monitoring Concession Contracts

The AVI does not have formal (written, approved, and dated) policies and procedures for monitoring concession contracts. Although not approved and dated, AVI does have certain written procedures; however, those procedures do not include all contract monitoring activities and the associated assigned responsibilities. Some examples of procedural documentation improvements include:

Administrative Directive 4-09, *Internal Control* (AD 4-09)

Each department is required to establish and document a system of internal control procedures specific to its operations, mission, goals, and objectives. The AD 4-09 requires each department to establish the internal controls in accordance with *The Standards for Internal Control in the Federal Government by the Comptroller General of the United States* (Green Book).

Source: AD 4-09

- Identifying key concession contract provisions for monitoring
- Specifying who is responsible for certain routine reconciliation activities, such as reviewing allowable deductions and resolving associated discrepancies
- Preparing billing sheets used to communicate the concession fees to AVI Accounts Receivable

Without formal policies and procedures, AVI cannot ensure effective internal controls are in place and that AVI personnel are performing their duties consistently.

The Standards for Internal Control in the Federal Government (Green Book) identifies established policies and procedures as a control activity needed to manage risk. Well written policies and procedures allow employees to understand their roles and responsibilities within predefined limits and allow management to guide operations without constant intervention.

Specifically, management is responsible for:

- Documenting in written policies for each unit its responsibility for an operational process' objectives and related risks; and, control activity design, implementation, and operating effectiveness
- Defining policies through day-to-day procedures, depending on the rate of change in the operating environment and complexity of the operational process
- Communicating to personnel the policies and procedures so that personnel can implement the control activities for their assigned responsibilities
- Reviewing policies, procedures, and related control activities periodically for continued relevance and effectiveness in achieving the entity's objectives or addressing related risks

The AVI Does Not Have Direct Access to the Parking Revenue Control System and the NTTA Parking System Is Not Integrated

On an ongoing basis, AVI cannot independently monitor the reasonableness of the following average monthly parking revenue for PCA and NTTA:

Fiscal Year	Average Monthly Revenue	
	PCA	NTTA
2014	\$ 672,233	\$ 731,534
2015	921,396	1,098,819

Although AVI receives self-reported information daily from PCA and NTTA, the AVI cannot determine the City's share of parking revenue is accurate and complete because the self-reported information provided does not include detailed parking transactions, such as the number of vehicles entering the parking garages and the length of time the vehicles were parked. The AVI does receive an independent audit certification from PCA; however, the independent audit is completed annually and may not be submitted to AVI for several months after fiscal year end. As mentioned previously, independent audit parking revenue certifications are not provided for TollTag parking revenue processed by NTTA. Without direct access to the PRCS

Airport Parking

A vehicle can enter parking garages through ticket lanes or TollTag lanes. The ticket lanes and TollTag lanes are managed by two separate parking systems.

The Airport parking operation is managed by the Parking Company of America (PCA). The PCA uses the Parking Revenue Control System (PRCS) to record the time and calculate the associated fees for vehicles using the ticket lanes.

The North Texas Tollway Authority's (NTTA) parking system records the time and calculates the associated fees for vehicles using the TollTag lanes.

Source: Department of Aviation

and integrating the NTTA parking system with PRCS, AVI cannot independently verify revenue reasonableness.

Parking Revenue Control System

The AVI is only granted access to the PRCS when a PCA employee is present and is using assigned login credentials. Prior to the renovation of the Airport, AVI employees responsible for contract monitoring were located inside the airport terminal and had direct (read-only) access to the PRCS. During construction, these AVI employees were temporarily moved out of the airport terminal and access to PRCS was terminated. After the renovation was complete, the AVI employees' access to the PRCS was not re-established. The AVI does receive daily hard copy transaction and reconciliation reports from PCA; however, these reports do not include the detailed transaction data.

North Texas Tollway Authority Parking System

The NTTA's parking system is not integrated with the PRCS system. Although AVI can access the NTTA parking system to generate reports to reconcile parking fees received, these reports do not include the detailed transaction data. Therefore, AVI must rely solely on NTTA self-reported TollTag parking revenue to monitor revenue accuracy and completeness. According to AVI, the City plans to replace the existing PRCS system with a new parking system that is integrated with the NTTA parking system. The target implementation year for the new parking system is 2018.

According to the Green Book, Principles 13 and 16, management should obtain relevant data from reliable internal and external sources in a timely manner so that the information can be used for effective monitoring. Management uses the quality information to make informed decisions and evaluate the entity's performance in achieving key objectives and addressing risks. Management performs ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations. Ongoing monitoring includes regular management and supervisory activities, comparisons, reconciliations, and other routine actions.

We recommend the Director of AVI:

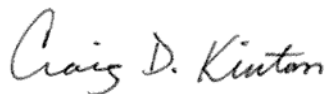
- I. Develops and implements formal (written, signed, and dated) contract monitoring policies and procedures
- II. Ensures AVI employees responsible for contract monitoring have direct (read-only) access to the PRCS system

- III. Integrates the new parking system with the NTTA parking system to obtain TollTag parking information; or, captures relevant TollTag parking information, such as the vehicles' license plate numbers and the specific date and time the vehicles were parked

Please see Attachment I for Background and Attachment II for management's response to the recommendation.

We would like to acknowledge the cooperation we received from AVI management during the conduct of this audit. If you have any questions or need additional information, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,



Craig D. Kinton
City Auditor

Attachments

- C: A. C. Gonzalez, City Manager
Ryan S. Evans, First Assistant City Manager
Mark Duebner, Director – AVI
Lynetta Kidd, Assistant Director – AVI
Robert Miville, Concessions Group Manager – AVI

ATTACHMENT I

Background

The Department of Aviation (AVI) is located at the Dallas Love Field Airport (Airport) at 8008 Herb Kelleher Way, Dallas, Texas. The AVI is responsible for monitoring contract compliance related to all concession contracts at the Airport, such as parking, car rentals, retail stores, food and beverage sales, airport advertising, shoe shining, and bag cart rentals. Concession contracts obligate concessionaires to pay the City of Dallas (City) the greater of a percentage of the monthly revenues or a minimum annual guarantee (MAG) amount. This audit focuses on AVI's contract monitoring controls over the parking and car rental concessions.

Parking Concession

The City entered into a five-year parking concession contract with the Parking Company of America (PCA) to provide vehicle parking services at the Airport effective September 1, 2004. The contract was extended for an additional five years through August 2014. On May 23, 2012, an additional three-year extension was approved by the City Council for parking services to continue from September 2014 through August 2017.

Currently, the Airport has three public parking options (Garage A, Garage B, and Valet Parking) with approximately 7,900 parking spaces open 24 hours a day. The City is in the process of building Garage C which is anticipated to open in 2018.

Parking Revenue Control System

The PCA uses the Parking Revenue Control System (PRCS) to maintain parking data at the Airport. The PRCS system is provided by the City and managed by Xerox Inc. (Xerox), a third party contractor. Xerox provides system support for PCA.

The City entered into an agreement with PCA to implement the North Texas Tollway Authority (NTTA) parking system to allow the NTTA TollTag customers to park at the Airport. Parking data obtained through TollTag users is maintained by the NTTA parking system. The NTTA parking system is designed for the Airport with AVI employees granted access for the purpose of obtaining TollTag parking revenue reports.

Parking Revenue

In accordance with the contract, PCA is required to pay the City an annual concession fee of 91.25 percent of Net Revenues² (Parking Revenue) or a MAG (a minimum amount of \$6,602,000 and a maximum amount of \$7,600,000 for any contract year), whichever is greater.

In Fiscal Year (FY) 2014 and FY 2015, Parking Revenue earned at the Airport was \$17,974,723 and \$25,928,580, respectively. Table I below illustrates the City's and PCA's share of Parking Revenue.

Table I

Parking Revenue for Dallas Love Field Airport

Fiscal Year	Total Parking Revenue (*)	City's Revenue Share (91.25% of Net Revenue)	PCA's Revenue Share (8.75% of Net Revenue)
2014	\$ 17,974,723	\$ 16,401,935	\$ 1,572,788
2015	25,928,580	23,659,829	2,268,751

Source: PCA's Independent Audit Report

Table II below illustrates the Parking Revenue amounts generated through the TollTag and non-TollTag parking for FY 2014 and FY 2015.

Table II

Dallas Love Field Airport Parking Revenue Breakdown

Parking Revenues	Fiscal Year 2014	Percentage of Total Parking Revenues	Fiscal Year 2015	Percentage of Total Parking Revenues
TollTag Revenue	\$ 9,449,537	53	\$ 14,122,024	54
Non-TollTag Revenue (*)	8,525,186	47	11,806,556	46
Total Parking Revenue	\$ 17,974,723	100	\$ 25,928,580	100

Source: PCA's Independent Audit Report

Note (*): Non-TollTag revenue includes cash, checks, and credit card payments received at the parking booths.

Parking Revenue is self-reported by PCA. According to the contract, PCA is to provide an independent annual audit report certifying the accuracy of the parking fees collected by PCA during the contract year. For FY 2014 and FY 2015, the certified Parking Revenue agreed to the payment remitted by PCA.

² Net Revenue means the Adjusted Gross Revenues, including TollTag parking payments, collected by NTTA, less sales tax, any credit card fees, AVI fees, and other reasonable associated transaction fees. Transaction fees are approved in advance by the Director of AVI.

The PCA collects revenue from customers who pay parking fees at the airport parking garages and deposits the proceeds daily. The PCA performs a reconciliation of all parking fees collected and deposits the City's share of Parking Revenue into the City's bank account. Daily hard copy transaction and reconciliation reports are subsequently delivered to AVI for verification of the City's share of Parking Revenue.

The NTTA remits Parking Revenue from the TollTag parking payments directly to the City. The TollTag revenue is then combined with the PCA revenue upon which the City's share of Parking Revenue is calculated.

Car Rental Concessions

The City has nine car rental concession contracts operating car rentals at the Airport. All car rental contracts with the City became effective on October 1, 2008 with an initial five-year term and three one-year renewal options. Some of the car rental companies are owned by the same brand; however, all car rental companies have separate contracts and remit concession fees individually. The car rental companies are as follows:

- Avis
- Budget (Owned by Avis)
- Enterprise
- National (Owned by Enterprise)
- Alamo (Owned by Enterprise)
- Hertz
- Thrifty (Owned by Hertz)
- Dollar (Owned by Hertz)
- Advantage

The concession contracts require the car rental companies to pay concession fees to the City in an amount equal to ten percent of their annual gross revenue derived from car rental operations or a MAG amount, whichever is greater.

In FY 2014 and FY 2015 Gross Revenue generated from the car rental concession contracts was estimated at \$72,265,203 and \$96,005,625, respectively. Table III below lists Gross Revenue, Concession fees due to the City, and the MAG for each car rental company for FY 2014 and FY 2015:

Table III
Car Rental Revenue for Dallas Love Field Airport

Brand	2014 Gross Revenue	Minimum Annual Guarantee FY 2014	Concession Fees Due to the City FY 2014	2015 Gross Revenue	Minimum Annual Guarantee FY 2015	Concession Fees Due to the City FY 2015
Avis	\$ 10,715,266	\$ 1,283,000	\$ 1,283,000	\$ 15,551,101	\$ 1,283,000	\$ 1,557,888
Budget	8,187,838	848,825	880,569	12,647,255	848,825	1,264,726
Enterprise	9,603,179	724,190	960,318	11,346,790	855,303	1,134,679
National	11,922,909	638,077	1,192,290	15,754,101	1,073,062	1,575,410
Alamo	4,855,077	544,005	550,271	5,435,473	556,190	575,900
Hertz	15,888,294	1,473,700	1,595,984	20,404,390	1,473,700	2,040,439
Thrifty	3,551,895	322,246	355,190	4,004,057	319,671	400,903
Dollar	6,036,838	555,456	607,053	7,528,829	543,296	752,883
Advantage	1,503,907	270,000	270,000	3,333,628	270,000	333,363
Total	\$ 72,265,203	\$ 6,659,499	\$ 7,694,675	\$ 96,005,625	\$ 7,223,047	\$ 9,636,191

Source: Car rental reports provided by AVI (Unaudited)

Car rental revenue is self-reported by car rental companies. The car rental companies submit hard copy revenue reports monthly to AVI to monitor car rental revenue for accuracy and completeness. According to the contract, each car rental company is required to provide an independent annual audit report certifying car rental revenue fees generated during the contract year. For FY 2014 and FY 2015, the certified car rental revenues agreed to the payments remitted by the three car rental companies (Avis, Hertz, and National) selected for testing.

ATTACHMENT II

Management's Response to the Report

Memorandum

RECEIVED

MAY 31 2016

City Auditor's Office



DATE: May 16, 2016
TO: Craig D. Kinton, City Auditor
SUBJECT: Response to Audit Report:
Audit of Leasing, Concessions, and Other Activities for the Department of Aviation

Our responses to the audit report recommendations are as follows:

Recommendation I

We recommend the Director of AVI develops and implements formal (written, signed, and dated) contract monitoring policies and procedures.

Management Response / Corrective Action Plan

Agree Disagree

Written contract monitoring policies and procedures are currently in place and are being followed by the Concessions Management team. However, the Department of Aviation agrees that more documentation and formalized policies and procedures are needed. The Department of Aviation will implement formal contract monitoring policies and procedures which will be monitored by management to ensure they are operating as intended. Additionally, given the volatility of the passenger volumes due to the expiration of the Wright Amendment restrictions, the Department of Aviation will be able to better develop methodologies and performance measures to monitor concession activities going forward.

Implementation Date
December 31, 2016

Responsible Manager
Director of Aviation

Recommendation II

We recommend the Director of AVI ensures AVI employees responsible for contract monitoring have direct (read-only) access to the PRCS system.

Management Response / Corrective Action Plan

Agree Disagree

"Dallas, the City that Works: Diverse, Vibrant and Progressive."

Much of the difficulty currently experienced by the Department of Aviation is the result of an old, outdated revenue control system that has limited functionality. A new Parking and Revenue Control System are included in the Parking Garage C construction project, and will be installed in all three garages. The new system will allow Department of Aviation employees responsible for contract monitoring to have direct (read-only) access to the PRCS. The anticipated completion date for the Parking Garage A and B PRCS upgrade is October 2016 with Garage C anticipated for completion in October 2018.

Implementation Date
December 31, 2016

Responsible Manager
Director of Aviation

Recommendation III

We recommend the Director of AVI integrates the new parking system with the NTTA parking system to obtain TollTag parking information; or, captures relevant TollTag parking information, such as the vehicles' license plate numbers and the specific date and time the vehicles were parked

Management Response / Corrective Action Plan
Agree Disagree

Another key feature of the new PRCS, the Department of Aviation will capture relevant TollTag parking information, such as the vehicles license plate numbers and the specific date and time the vehicles were parked. This information will allow the Department to verify revenues due to the City from NTTA.

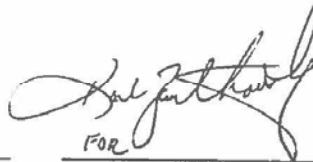
Implementation Date
December 31, 2016

Responsible Manager
Director of Aviation

Sincerely,



Mark Duebner, Director
Department of Aviation



FOR
Ryan S. Evans
First Assistant City Manager